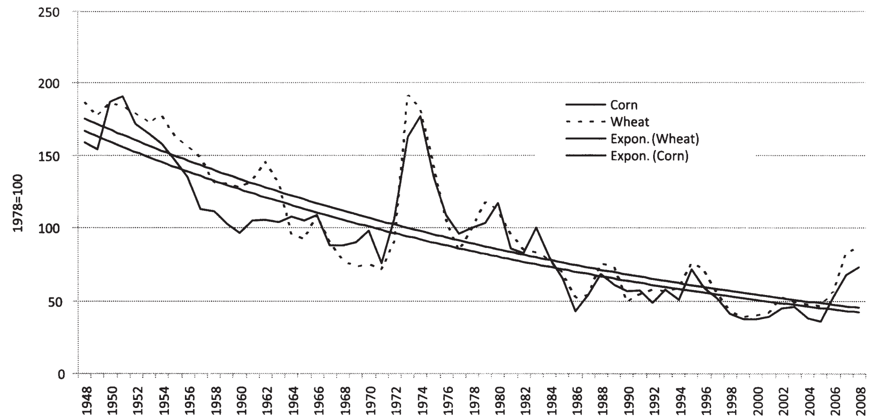

Note: The 1948–2007 prices are marketing year average prices. The 2008 prices are the November 2008 WASDE season average, mid-point of range for the 2008/09 marketing year. Prices deflated by BEA annual implicit GDP deflator.
Sources: Carter et al. (2006); U.S. Department of Agriculture, National Agricultural Statistics Service, *Agricultural Prices*; USDA WASDE; and BEA "National Economic Accounts."

Figure 3. Index of real corn and wheat prices, 1948–2008

the decline. The handful of extreme jumps in commodity prices, in the late 1890s (for corn), around World War I, around the New Deal and the 1934 drought, and around World War II and in the 1970s, were all followed by extreme price downturns. The price drop at the end of 2008 seems to be consistent with this pattern.

Comparison of the Prices in 2006 through 2008 with the 1970s

The early 1970s stand out in the long history of U.S. commodity prices, and it may be particularly interesting to compare the current price experience with this earlier period. Figure 4 exhibits the real corn price index by month from January 1972 to December 1975, with July 1972 set at 100. Figure 4 also shows the real corn price index for 2006 through October 2008, with July 2006 set at 100. The two series are aligned such that January 2006 is at the same starting point as January 1972. Starting in the summer of the first year, the corn price rose more rapidly in 2006 than in 1972, reaching about 50% above the base price in just six months (January 2007), where it remained for most of 2007. The corn price rose over the next eight months to reach 2.5 times the base price by the summer of 2008, before collapsing back to about 1.8 times the base price in October 2008.[5]

[5] Notice that these prices received by farmers each month have been less volatile than the futures market prices discussed in paragraph one. Also the months from November 2008 through February 2009 display relatively little price movement.

The price rise in the 1970s was more gradual, and of course, we have the opportunity to observe more of the price decline. Corn prices rose gradually to only about 20% above the base through April of 1973, before rising by 90% by August 1973. Prices moved erratically before peaking at over 2.5 times the base price in the fall of 1974. Prices declined in stages reaching about 1.5 times the base price by the end of 1975.

A number of observers projected that the price jumps in the early 1970s presaged a long-term food crisis. A range of policy measures were proposed to deal with the crisis, which was over before any measures were implemented. Many economists, perhaps best represented by D. Gale Johnson, provided calm assessments, suggesting that commodity prices would be back on trend in a few years and proposing policy tools that might moderate future price spikes (Johnson 1974, 1975, 1976).

Current Farm Commodity Price Prospects and Policy Measures

If the current farm commodity scenario plays out like earlier events, we would expect prices to rejoin the long-term trend reduction in real prices at some point over the next few years. With rapid general inflation in the 1970s, it took several years before real prices adjusted downward to the post-war trend line. Lower real farm prices were accompanied by a severe and broad-based recession in the general